VALENER
energy company

2013 Fiscal Year Results
Conference Call
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(Introduction by the operator)

[Hélène St-Pierre] Thank you very much.

Good morning and welcome to our conference call covering Valener's results for its 2013 fiscal year.

With me today from Gaz Métro are Sophie Brochu, President and Chief Executive Officer; Pierre Despars, Executive Vice President, Corporate Affairs and Chief Financial Officer; Katia Marquier, Director, Corporate Control; Caroline Warren, Senior Advisor, Investor Relations and Marie-Christine Demers, Senior Advisor, Public Affairs.

Before we begin, please note that during this conference call we may refer to or talk about certain forward-looking information. Please refer to the *Cautionary Note Regarding Forward-Looking Statements* which can be found on the second page of our presentation as well as in our MD&A published today and available on Valener's Website and on SEDAR. We may also refer to certain indicators that are not standardized in accordance with Canadian GAAP and should not be considered in isolation or as substitutes for other performance measures that are in accordance with GAAP.

I will now turn the call over to Sophie Brochu.

[Sophie Brochu] Thank you Hélène and good morning everyone.

Let's start on page 3 of the presentation.

I am pleased to report that for fiscal 2013, Valener's recurring net income was up 12.6% or $3.8 million at $34 million. The main driver for this strong performance came from the growth in earnings generated by Gaz Métro's energy distribution activities in Vermont.

Cash flows related to operating activities were up $21.4 million compared to last year. This increase was primarily due to higher distributions received from Gaz Métro, following Valener's subscriptions to Gaz Métro units in fiscal 2012 and to a favourable change in non-cash working capital items.

As you can see on page 5, Valener's normalized operating cash flows, which totalled $1.07 per common share in fiscal 2013, were more than enough to cover the annualized dividend of $1 per share paid to common shareholders.

This level of dividend will be maintained for fiscal 2014 as mentioned during our last conference call.

I am now on page 7 for an update on our Seigneurie de Beaupré wind farm projects in Québec. The first phase is on track, with all 126 turbines installed, despite the strike that hit the construction industry last June.
I am very enthusiastic with today's commissioning of wind farm 2 and the forthcoming commissioning of wind farm 3. Hard work by the construction team, combined with close monitoring by the partners, has greatly contributed to this success.

It is worth noting that this first phase is expected to generate annual distributable cash flows of about $24 to $28 million, of which Valener will receive its proportionate share. We expect a lag before the receipt of the first distribution from the project due to standard conditions that have to be met in the financing agreement. However, such timing difference will be covered by Valener's committed credit facility, which is currently largely unused.

Page 8 shows that the second phase of the projects is also on course in order to be in service by December 2014. All the required agreements have been signed and to date, land clearing work, all of the 28 foundations, most of the road work as well as approximately 60% of the collector system have been completed.

Last month, financing of that second phase was completed with a group of lenders comprised of Canadian life insurance companies and a German bank. This long term financing is at a fixed rate of 5.66% and will be amortized over 19.5 years after the commercial operations begin. With this financing, and given investments and commitments totalling $43.8 million, undertaken by Valener, Gaz Métro and Boralex, the three partners, this second phase of the Seigneurie de Beaupré Wind Farms is now fully funded.

When it is fully operational, this phase is expected to generate annual distributable cash flows of about $6 to $7 million, of which Valener will receive its proportionate share.

Let’s now turn to Gaz Métro. On page 9, year-over-year recurring net income was up 9.3% or $14.1 million.

Again, these results were the product of Gaz Métro’s focused diversification strategy deployed in the recent years and which led to our increased presence in Vermont which more than offset the negative impact of the 2013 rate case parameters for Gaz Métro-QDA.

Speaking of Vermont (on page 10), Green Mountain Power is moving along with its rigorous three-year plan for merging its processes and operations with those of CVPS. I am pleased to report that, to date, the savings resulting from the merger synergies are greater than originally forecasted. Remember that in fiscal 2013, US$2.5 million of those savings were given back to customers through the rate setting process, as determined at the time of the acquisition. This customer share will go up to US$5 million in fiscal 2014.

On the natural gas distribution front, regulatory approval is still pending for VGS’s application to extend its system further south, into Addison County. The regulatory application for the second phase of the project to extend service to International Paper Company’s mill in New York State was filed with the VPSB last week. The investments required to build these network extensions are now estimated at approximately US$150 million as a result of changes in materials and methods that will be used to build the network. If approved, these investments would more than double the size of VGS.

In closing, before turning the call over to Pierre, I would like to say a few words about our vision and development strategy for natural gas in our core market. We strongly believe that through innovation and determination, we can make a greener and more prosperous Quebec. In a context where petroleum products will still be relied upon in the near future, it is necessary to combine the advantages of electricity for personal and collective transportation purposes with those of natural gas for the transportation industry, such as trucks, trains and ferries. This winning tandem will allow us to reduce our environmental footprint and our global energy costs. This is what we highlighted during the Commission on energy issues in Quebec which was held in September and early October.

As you know, since 2010, Gaz Métro has been working hard on a plan to supply LNG to the transportation industry in Quebec and eastern Canada via Gaz Métro Transport Solutions.

To date, as part of the Blue Road project, which covers highways 20 and 401 between Rivière-du-Loup and Toronto, we have deployed four refuelling stations to supply Transport Robert’s 124 trucks as well as other carriers. And in partnership with La Coop fédérée, we also plan to deploy an innovative concept of public multi-energy service stations that will provide LNG, and in some cases CNG also, as fuel.

I would also like to take a moment to welcome the measures announced in early November by the government of Quebec concerning the use of natural gas for the freight transportation industry and heavy vehicles. The Government’s announcement that it will subsidize a portion of the additional cost for the purchase of vehicles running on natural gas as a source of fuel is excellent news. The measures are important because they will help speed up the use of natural gas as fuel, resulting in an immediate reduction of up to 25% in term of GHG emissions. Also, since fuel represents one of the transportation industry's biggest expenses, companies can reduce their operating expenses at the same time as they improve their environmental footprint because the cost of natural gas can be up to 40% less than diesel.

Natural gas is also good for use in ships and locomotives and in this regard, Gaz Métro would like to underscore the proposed measures in the Government document to reduce GHGs in the marine and railway sectors. In this regard, last September, Gaz Métro LNG, created during fiscal 2013 to oversee all our activities in the LNG business, signed an agreement with the Société des traversiers du Québec for the purchase of fuel to power three LNG ferries. These ferries will be among the first in North America to use LNG as fuel and are expected to be commissioned in 2015. In addition, Gaz Métro GNL is also assessing the possibility of hauling LNG by truck to service more remote areas that cannot be reached by Gaz Métro's network.

Given the projected rapid growth in market demand for LNG, we are currently looking at several options for improving the availability of LNG in Quebec. One of those options is increasing the liquefaction capacity at our LSR plant in Montreal. A request to that effect was filed with the Régie last August and we are expecting a decision in early 2014.

I will now turn the call over to Pierre for a more detailed review of the results.

[Pierre Despars] Thank you Sophie and good morning everyone.

Let’s start on page 12 with our natural gas distribution activities in Québec.

At the beginning of the year we outlined that the 2013 rate case, based on an 8.90% rate of return, was expected to translate into a $6.6 million decline in net income for Gaz Métro-QDA to $104.1 million compared to $110.7 million realized in fiscal 2012.

Last July, the Régie issued its final decision on the 2013 rate case in which it reduced operating expenses included in the cost of service by $5 million. Over the course of the fourth quarter, we strived to limit the impact of that reduction on our net income.

As shown on slide 13, the shortfall in the distribution service was finally limited to $2.2 million. And this shortfall was more than offset by two incentives that had not been forecasted in the rate case: first, $3.0 million in the transportation and load balancing services and second, $1.0 million as part of the Global Energy and Efficiency Plan. This resulted in a realized net income of $105.9 million for Gaz Métro-QDA in fiscal 2013, $1.8 million higher than the level anticipated in the rate case.

Overall, Gaz Métro-QDA’s net income was down $4.8 million compared to last fiscal year as summarized on page 14.

For fiscal 2013, recurring net income generated by the energy distribution activities in Vermont was up $25.5 million compared to last year.

The main reason for this increase was the positive impact of the CVPS acquisition on Green Mountain Power’s net income and synergies resulting from the operational integration of GMP and CVPS.

This last fiscal year highlighted Gaz Métro’s efficiency in term of cost management, both in Quebec and Vermont, and we are very proud of that.

Lastly, you will notice that recurring net income from the other segments was down $6.6 million compared to last fiscal year. The positive impact of increased short-term sales on PNGTS's net income was more than offset by the negative impact of the sale of the stake in HydroSolution in November 2012, as well as the allocation of the income tax expense for TQM and Intragaz at Gaz Métro's level rather than at Valener's and GMi's since the start of fiscal 2013.

On page 15 Gaz Métro-QDA filed its 2014 rate case with the Régie last October. This rate case, based on an 8.90% ROE, as approved by the Régie last June, is being treated solely on a cost-of-service basis, as in fiscal 2013. As a reminder, in its decision issued last April, the Régie ordered that all Gaz Métro's rate cases be treated on a cost of service basis pending the application of a new incentive mechanism.

In September 2013, the Régie approved a temporary renewal of the 2013 rates as of October 1, 2013 for fiscal 2014. To avoid the billing delays experienced in 2013 until a final decision is issued, Gaz Métro applied for interim rates based on the 2014 rate case parameters to take effect on December 1, 2013.

The Régie approved this request partially, limiting the increase to inflation for some parameters of the 2014 rate case.
Hearings for the 2014 rate setting and other matters in the rate case are scheduled next March and April and a final decision by the Régie is expected by summer 2014.

As shown on page 16, the 2014 rate case is expected to translate into an increase of $0.8 million in net income compared to fiscal 2013. This upside mainly stems from growth in the rate base and non-rate base investments of $2.6 million. The other variations relate to items in fiscal 2013 that are not anticipated in the 2014 rate case, i.e. the $4 million incentive on transportation and load balancing services and GEEP, as well as the $2.2 million earnings shortfall in distribution service.

Since the Régie renewed the 8.90% ROE for fiscal 2014, this item does not have any impact on the expected net income variation for 2014.

Let's now turn to Vermont on page 17. Green Mountain Power and Vermont Gas both filed their 2014 rate cases with the VPSB last August.

GMP requested an ROE of 9.58% with a rate base close to US$1.2 billion and an equity ratio of 49.5% and VGS requested an ROE of 10.26% with a rate base of about US$111 million and an equity ratio of 55.0%. The VPSB approved GMP's request last September and VGS's request last October. It is worth noting that these authorized ROE's, linked to the 10-year U.S. treasury bonds, are up 74 bps and 51 bps respectively compared to fiscal 2013 mainly due to increase in interest rates on those bonds.

Finally, please note that Appendix B and C of this presentation present Valener and Gaz Métro's fiscal 2013 fourth quarter results. Given the seasonal nature of Gaz Métro's operations and the normally low demand for energy during the summer months, Gaz Métro and Valener have historically incurred a loss during the fourth quarter of their fiscal year.

That concludes our presentation. Thank you for your attention. We will be pleased to answer your questions.

[Question and answer period]

Thank you very much for your participation this morning. Have a great day!